

## Message Text

UNCLASSIFIED

PAGE 01 LONDON 00818 01 OF 03 161905Z

63

ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-11 ISO-00 CIAE-00 DODE-00

PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05 PA-02 PRS-01

SP-02 SS-15 USIA-15 AID-05 EB-07 CIEP-02 TRSE-00

STR-04 OMB-01 CEA-01 FRB-01 XMB-04 OPIC-06 LAB-04

SIL-01 FEA-01 INT-05 AGR-10 ABF-01 FSE-00 /152 W

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R 161845Z JAN 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8202

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USDEL MTN GENEVA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 00818

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

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PAGE 02 LONDON 00818 01 OF 03 161905Z

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING JANUARY 16

BEGIN SUMMARY: AFTER A DECIDEDLY GLOOMY 1975, THE ECONOMIC CLIMATE HAS STARTED TO SHOW DEFINITE SIGNS OF IMPROVEMENT. FALLING INTEREST RATES HAVE PROPELLED THE LONDON STOCK MARKET INDEX THROUGH THE 400 LEVEL, A RISE OF OVER 30 PERCENT IN SIX MONTHS. INFLATION IS CURRENTLY RUNNING AT ABOUT HALF THE RATE WHICH PREVAILED LAST SUMMER. INDUSTRIAL PRODUCTION HAS CLEARLY BOTTOMED OUT AND IS SHOWING SOME FAINT SIGNS OF AN UPTURN. IT WOULD NOT BE FAIR TO CONCLUDE THAT THE BRITISH ECONOMY HAS BEEN SUDDENLY CURED OF ALL ITS PROBLEMS. THE CHRYSLER EPISODE, CURRENT LABOR DIFFICULTIES IN THE NATIONALIZED STEEL INDUSTRY, AND THE IMPLICATIONS FOR ECONOMIC GROWTH CONTAINED IN THE CHANCELLOR'S LETTER TO THE IMF UNDERLINE THE VERY REAL ECONOMIC PROBLEMS STILL FACING BRITAIN. NEVERTHELESS, THE POSITIVE DEVELOPMENTS OF THE PAST MONTH HAVE HELPED TO ESTABLISH A CONSENSUS THAT THE WORST IS PAST. ORGANIZED LABOR, INDUSTRY AND GOVERNMENT CONTINUE TO COOPERATE IN TRYING TO FORMULATE A VIABLE MEDIUM TERM INDUSTRIAL STRATEGY. EFFORTS ARE GETTING UNDERWAY TO DEVISE A WORKABLE SUCCESSOR TO THE PRESENT WAGE RESTRAINT POLICY. MOST IMPORTANT OF ALL, DESPITE DIFFERENCES OF EMPHASIS AND TACTICS ALL THE MAJOR POLITICAL AND ECONOMIC GROUPINGS REMAIN FIRMLY COMMITTED TO KEEPING THE ECONOMY ON THE PATH TOWARD RECOVERY. END SUMMARY.

1. CURRENT ACCOUNT. IN DECEMBER 1975 THE UK CURRENT ACCOUNT IS ESTIMATED TO HAVE BEEN IN DEFICIT BY 79 MILLION POUNDS. THE DEFICIT ON TRADE IN GOODS WAS 199 MILLION POUNDS (SEASONALLY ADJUSTED) MADE UP OF A DEFICIT OF 320 MILLION POUNDS IN TRADE IN PETROLEUM AND PETROLEUM PRODUCTS AND A SURPLUS OF 121 MILLION POUNDS IN TRADE IN NON-OIL GOODS. THE BALANCE ON SERVICES AND OTHER CURRENT TRANSACTIONS IS ESTIMATED TO HAVE BEEN RUNNING AT A MONTHLY SURPLUS OF ABOUT 120 MILLION POUNDS. IN THE FOURTH QUARTER OF 1975 THE CURRENT ACCOUNT DEFICIT WAS 348 MILLION POUNDS COMPARED WITH 577 MILLION POUNDS IN THE PREVIOUS QUARTER, IN 1975 AS A WHOLE THE CURRENT ACCOUNT DEFICIT IS ESTIMATED TO HAVE BEEN 1687 MILLION POUNDS COMPARED WITH 3668 MILLION POUNDS IN 1974. (DETAILS TO FOLLOW)

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PAGE 03 LONDON 00818 01 OF 03 161905Z

LOW)

2. BANK OF ENGLAND EASES LIQUIDITY SHORTAGE. IN THE WAKE OF RECENT HEAVY SALES OF GOVERNMENT DEBT AND SEASONAL TAX PAYMENTS, A SHORTAGE OF LIQUIDITY HAS DEVELOPED IN THE BANKING SYSTEM. THE BANK OF ENGLAND HAS MOVED TO EASE THIS SHORTAGE BY TEMPORARILY RETURNING SOME 325 MILLION POUNDS OF SPECIAL DEPOSITS TO THE SYSTEM. THESE

SPECIAL DEPOSITS HAD BEEN NECESSARY TO MOP UP EXCESS LIQUIDITY AND AFFECT THE MONEY SUPPLY IN A WAY SIMILAR TO THAT OF LOWERING OR RAISING THE RESERVE REQUIREMENT IN THE U.S. THE BANK OF ENGLAND WAS CLEAR IN ITS INTENT TO WITHDRAW THIS EXTRA LIQUIDITY AFTER FEBRUARY 10. ITS ACTION HAS BEEN VIEWED IN THE PRESS AS EVIDENCE OF THE GOVERNMENT'S UNWILLINGNESS TO SEE A RISE IN SHORT TERM RATES IN THE DACE OF THE TREND TOWARD LOWER RATES THAT HAS ESTABLISHED ITSELF OVER THE PAST 2 MONTHS.

3. NEW INDUSTRIAL STRATEGY -- THE SECOND STEP. THE COUNCIL OF THE NATIONAL ECONOMIC DEVELOPMENT ORGANIZATION (NEDO) MET JANUARY 14 TO REVIEW WORK DONE BY THE DEPARTMENT OF INDUSTRY AND HM TREASURY ON THE IDENTIFICATION OF THE 30 INDUSTPIAL SECTORS WHICH, OVER THE MEDIUM TERM, WILL RECEIVE THE LION'S SHARE OF AVAILABLE INVESTMENT RE SOURCES. CHAIRED BY THE CHANCELLOR OF THE EXCHEQUER AND

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PAGE 01 LONDON 00818 02 OF 03 162030Z

63

ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-11 ISO-00 CIAE-00 DODE-00

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R 161845Z JAN 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8203

INFO AMEMBASSY BERN

AMEMBASSY BONN

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AMEMBASSY COPENHAGEN

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UNCLAS SECTION 02 OF 03 LONDON 00818

ATTENDED BY SENIOR REPRESENTATIVES OF INDUSTRY, ORGANIZED  
LABOR, AND GOVERNMENT, THE NEDO MEETING MARKED THE PROG-  
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PAGE 02 LONDON 00818 02 OF 03 162030Z

RESS OF THE FIRST PHASE OF THE NEW INDUSTRIAL STRATEGY  
LAUNCHED BY THE PRIME MINISTER AT CHEQUERS LAST NOVEMBER.  
THE THIRTY SECTORS COVER OVER 60 PERCENT OF BRITISH IN-  
DUSTRY. THE STRATEGY. PROMISING INITIALLV TO SELECT  
ONLY VIABLE OR POTENTIALLY VIABLE SECTORS FOR ASSISTANCE,  
HAS BEEN MODIFIED IN THE FACE OF FEARS ON THE PART OF  
BOTH UNIONS ALD MANAGEMENT THAT INDUSTRIES OMITTED FROM  
THE ELECT WOULD FIND THEMSELVES FACED WITH IMMINENT COL.  
LAPSE. NEVERTHELESS, THE NEDO COUNCIL HAS AGREED TO  
PRESS AHEAD WITH WORK ON EACH OF THE 30 SECTORS THE  
ANALYSIS BEGUN BY THE DEPARTMENT OF INDUSTRY AND THE  
TREASURY WILL BE CARRIED FORWARD BY THE SECTORAL NEDO  
COUNCILS WHICH WILL SUBMIT THEIR REPORTS TO THE NEDO  
COUNCIL MEETILG NEXT JUNE.

4. INDUSTRIAL PRODUCTION. THE INDEX OF INDUSTRIAL PRO-  
DUCTION (1970 EQUALS 100) ROSE TO 101.8 IN NOVEMBER FROM  
THE REVISED OCTOBER FIGURE OF 101.7. THE SLIGHTLY NAR-  
ROWER INDEX OF MANUFACTURING OUTPUT STOOD AT 101.5 IN  
NOVEMBER UNCHANGED FROM THE REVISED OCTOBER FIGURE. THIS  
MARKS THE THIRD SUCCESSIVE MONTHLY INCREASE IN INDUSTRIAL  
OUTPUT SINCE AUGUST WHEN THE INDEX REACHED ITS LOW POINT  
IN THE CURRENT CYCLE OF 98.8. DURING THE THREE MONTHS  
THROUGH NOVEMBER THE BROAD BASED INDEX ROSE BY 3 PERCENT  
COMPARED WITH A DECLINE OF 0.9 PERCENT DURING THE THREE  
MONTHS THROUGH JULY. WHILE THE NOVEMBER INDEX IS 3.8  
PERCENT BELOW THE NOVEMBER 1974 FIGURE, THE RECENT BE-  
HAVIOR OF INDUSTRIAL PNODUCTION LENDS FURTHER WEIGHT TO  
THE EVIDENCE THAT THE RECESSION BOTTOMED OUT DURING THE

AUTUMN.

5. REAL DISPOSABLE PERSONAL INCOME DOWN. REAL DISPOSABLE PERSONAL INCOME DECLINED AGAIN DURING THE THIRD QUARTER. HOWEVER, THE RATE OF DECLINE SLACKENED APPRECIABLY FROM THE 3.1 PERCENT RECORDED DURING THE SECOND QUARTER. IN 1970 PRICES, THIRD QUARTER DISPOSABLE INCOME STOOD AT 10.21 BILLION POUNDS, DOWN 60 MILLION POUNDS OR 0.5 PERCENT FROM THE SECOND QUARTER FIGURE OF 10.27 BILLION. THIS REPRESENTS A DECLINE OF 370 MILLION POUNDS OR 3.6 PERCENT FROM THE FIRST QUARTER PEAK OF 10.59 BILLION POUNDS. THE TWO QUARTER DROP IN DISPOSABLE INCOME IS UNCLASSIFIED

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PAGE 03 LONDON 00818 02 OF 03 162030Z

EVIDENCE OF THE FUTILITY OF DEMANDS FOR HIGHER WAGES IN RESPONSE TO HIGHER PRICES. BRITISH INCOME RECEIVERS CONTINUED TO SAVE AN UNUSUALLY HIGH PROPORTION OF DISPOSABLE INCOME (13.7 PERCENT VERSUS 13.0 PERCENT) DURING THE THIRD QUARTER REFLECTING CONTINUING UNCERTAINTY OVER UNEMPLOYMENT AND DECLINES IN REAL ASSET VALUES. DISAGGREGATING PERSONAL INCOME FLOWS REVEALS A ONE-THIRD INCREASE IN CURRENT GRANTS FROM PUBLIC AUTHORITIES BETWEEN THE FIRST AND THIRD QUARTERS AS COMPARED WITH A 9.5 INCREASE IN WAGES AND SALARIES OVER THE SAME PERIOD. SUCH A GAP IS NORMAL DURING A RECESSION AS GOVERNMENT INCOME MAINTENANCE EXPENDITURES RISE WITH THE DROP IN EMPLOYMENT.

6. REVISED THIRD QUARTER GDP FIGURES. THE AVERAGE ESTIMATE FOR GROSS DOMESTIC PRODUCT (1970 EQUALS 100) FOR THE THIRD QUARTER WAS REVISED TO 106.8 FROM 106.6. THIS ESTIMATE IS ARRIVED AT BY AVERAGING GDP FIGURES DERIVED FROM EXPENDITURE, INCOME AND OUTPUT DATA. THE REVISED INDICES FOR THE THREE CATEGORIES ARE 105.7, AND 106.6 RESPECTIVELY.

7. WHOLESALE PRICES. WHOLESALE PRICES CONTINUED TO RISE IN DECEMBER. THE PRICE INDEX (1970 EQUALS 100) FOR FINISHED MANUFACTURED GOODS (OUTPUTS) ROSE TO 201.4 OR 1.3 PERCENT FROM ITS NOVEMBER LEVEL OF 198.8. WHOLESALE PRICES FOR RAW MATERIALS (INPUTS) ROSE BY 1 PERCENT WITH THAT PRICE INDEX RISING TO 258.6 IN DECEMBER FROM 256.1 IN NOVEMBER. THE 1.3 PERCENT INCREASE IN THE OUTPUT INDEX REFLECTS HIGHER PRICES FOR PETROLEUM PRODUCTS IN THE WAKE OF THE RECENT OPEC PRICE INCREASE. IN THE YEAR THROUGH DECEMBER THE OUTPUT PRICE INDEX ROSE BY 20.1 PERCENT WHILE INPUTS ROSE BY 6.2 PERCENT. OVER THE LAST QUARTER OF 1975 OUTPUT PRICES ROSE AT AN ANNUAL RATE OF 12.3 PERCENT WHILE INPUT PRICES INCREASED NEARLY TWICE AS RAPIDLY RISING AT AN ANNUAL RATE OF 25.2 PERCENT. THIS DIFFERENCE REFLECTS BOTH THE MARKED WEAKENING OF THE POUND AND THE

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PAGE 01 LONDON 00818 03 OF 03 161916Z

63

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R 161845Z JAN 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8204

INFO AMEMBASSY BERN

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UNCLAS SECTION 03 OF 03 LONDON 00818

FIRMING TREND IN WORLD COMMODITY PRICES.

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PAGE 02 LONDON 00818 03 OF 03 161916Z

8. RETAIL PRICES. THE INDEX OF RETAIL PRICES (JANUARY 1974 EQUALS 100) STOOD AT 146.0 IN DECEMBER, AN INCREASE OF 1.2 PERCENT OVER THE NOVEMBER LEVEL OF 144.2. FOR THE 12 MONTHS ENDING IN DECEMBER RETAIL PRICES ROSE BY 24.9 PERCENT WHILE THE AVERAGE RATE OF PRICE INCREASE FOR 1975 WAS 24.2 PERCENT. THESE FIGURES MASK THE SUBSTANTIAL SLOWING OF INFLATION THAT HAS OCCURRED DURING THE SECOND HALF OF THE YEAR. IN THE THREE MONTHS THROUGH DECEMBER RETAIL PRICES ROSE AT AN ANNUAL RATE OF 15.6 PERCENT WHILE THE ANNUALIZED RATE FOR THE SIX-MONTH PERIOD THROUGH DECEMBER WAS 13.0 PERCENT.

9. EXCHANGE RATE AND GOLD:

| (DATES)                | 1/8      | 1/15     | CHANGE        |
|------------------------|----------|----------|---------------|
| EXCHANGE RATE          | \$2.0345 | \$2.0275 | DOWN \$0.0070 |
| EFFECTIVE DEPRECIATION |          |          |               |
| (PERCENT)              | 30.0     | 30.2     | WIDENED 0.2   |
| GOLD                   | \$136.00 | \$132.50 | DOWN \$3.50   |

10. FORWARD DISCOUNT ON STERLING:

| (DATES)  | 1/8  | 1/15 | CHANGE    |
|----------|------|------|-----------|
| 1 MONTH  | 0.85 | 0.85 | UNCHANGED |
| 3 MONTHS | 2.42 | 2.45 | UP 0.03   |
| 6 MONTHS | 4.43 | 4.45 | UP 0.03   |

(ALL FIGURES IN CENTS)

11 EURODOLLAR INTEREST RATES:

| (DATES)  | 1/8   | 1/15  | CHANGE    |
|----------|-------|-------|-----------|
| 1 MONTH  | 5-3/4 | 5-1/4 | DOWN 1/2  |
| 3 MONTHS | 5-5/8 | 5-5/8 | UNCHANGED |
| 6 MONTHS | 6     | 6     | UNCHANGED |

12. LOCAL AUTHORITY DEPOSIT RATES:

| (DATES)  | 1/8     | 1/15    | CHANGE    |
|----------|---------|---------|-----------|
| 1 MONTH  | 10-7/16 | 10-5/16 | DOWN 1/8  |
| 3 MONTHS | 10-1/2  | 10-5/16 | DOWN 3/16 |
| 6 MONTHS | 10-9/16 | 10-1/4  | DOWN 5/16 |

13. THE MINIMUM LENDING RATE WAS REDUCED BY ONE-QUARTER OF ONE PERCENT, TO 10-3/4 PERCENT, AS OF FRIDAY, JANUARY 16, 1976.

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PAGE 03 LONDON 00818 03 OF 03 161916Z

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## Message Attributes

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